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November 15, 2017

VIA ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street SW
Washington, DC 20554

Re: *Notice of Ex Parte Presentation - Viya Telephone CAF Phase II Service Obligations and Supplemental Hurricane Recovery Relief (WC Docket No. 10-90)*

Dear Ms. Dortch:

On November 14, 2018, Virgin Islands Telephone Company dba Viya Telephone ("Viya") met with Alexander Minard and Christian Hoefly of the Wireline Competition Bureau regarding the service obligations associated with Viya's frozen Connect America Fund ("CAF") support and additional support for the recovery of essential services following Hurricanes Irma and Maria. Viya was represented by Douglas Minster, Vice President, Government and Regulatory Affairs; and Rohan Ranaraja, Director, Regulatory Affairs, for Viya's parent company, ATN International Inc.; and undersigned counsel. In the meeting, our presentation followed the attached slide deck, which was distributed to meeting attendees.

Sincerely,

/s/
L. Charles Keller

Attachment

cc: Alexander Minard
Christian Hoefly

Viya

U.S. Virgin Islands

The importance of CAF frozen support certainty in the wake of Hurricanes Irma and Maria

Presentation to Federal Communications Commission

November 14, 2017

Viya

INTERNET MOBILE CABLE TV PHONE

The vibe that connects us.

Introductions

Doug Minster
VP, Government and Regulatory Affairs,
ATN International, Inc. (parent company to Viya)

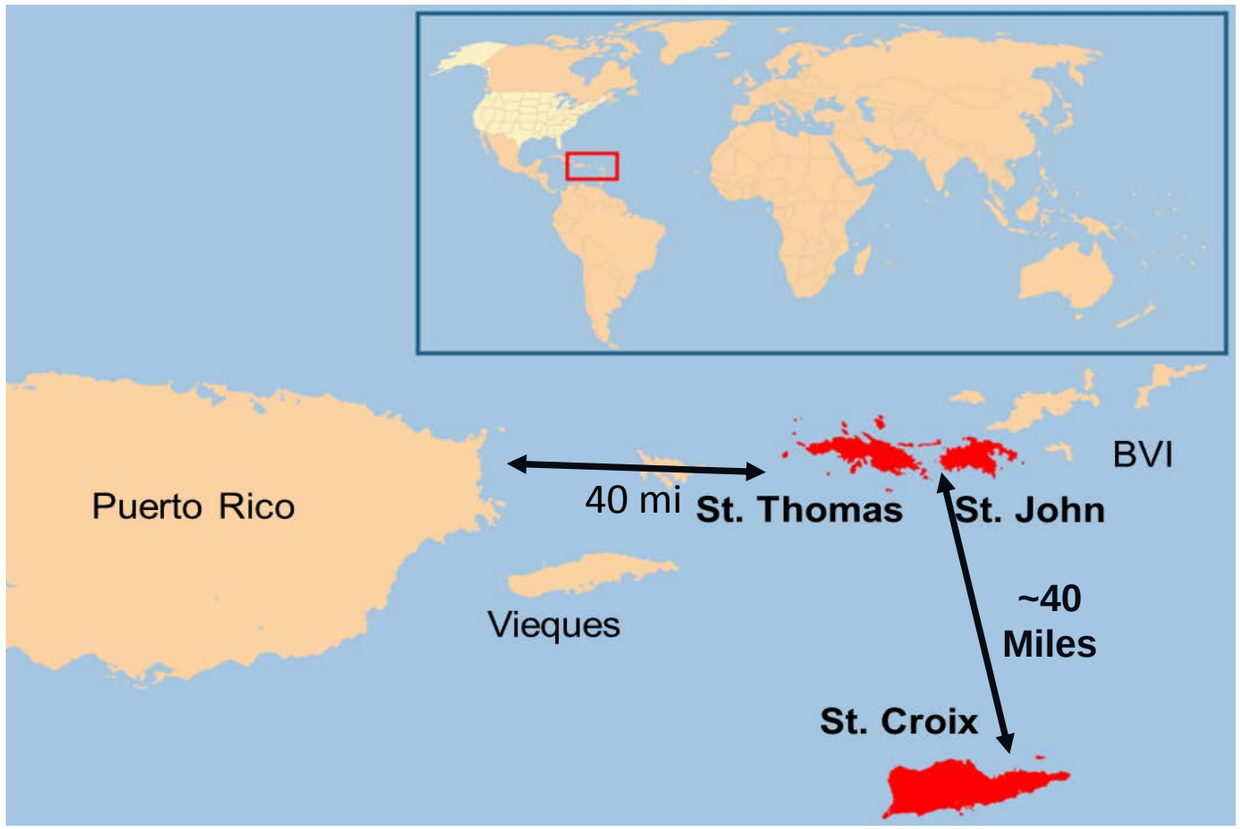
Rohan Ranaraja
Director, Government and Regulatory Affairs
ATN International, Inc. (parent company to Viya)

Executive Summary

- Review showing Viya was preparing to make pre-hurricanes
  - $17M/year for 10 years 2018-27
- Hurricanes Irma and Maria devastated USVI
- Viya needs certainty regarding term and conditions on frozen CAF support to plan for recovery
  - Establish 10-year term of support asap
  - Grant AFR for lost $680K per year
  - Set obligations in 2018
- Provide additional, one-time recovery support
  - “More funding will be needed in the months to come” – Chairman Pai, Puerto Rico

United States Virgin Islands

- **Three primary islands 1,100 miles southeast of Florida and 40 miles east of Puerto Rico**
  - Median household income is 30% lower than mainland
  - Double the unemployment of the mainland
  - Poverty rate was more than 3x U.S. average



- **Combined area of 134 miles^2 (about twice the size of Washington, D.C.) and 107K residents** (pre-hurricane)
  - St. Croix (STX): 84 miles^2 and ~50K population
  - St. Thomas (STT): 31 miles^2 and ~51K population
  - St. John (STJ): 20 miles^2 and ~5K population
- **All statistics pre-hurricanes**

Viya

Viya's Need for Support *Before* Irma and Maria

Pre-Hurricanes		
	Annual	Total
Network Construction		
2014-15 HFC Build-out Investment financing		$93,000,000
Annual Projected Network Investment and Upgrades (June 2017 PSC USF filing 2017-21) (Thereafter, estimate)	FY '18-21: $6,500,000 Est. '21-'27 $5,000,000	$56,000,000
Total Network Investment		$149,000,000
Network Operating & Maintenance		
(June 2017 PSC USF filing 2017-21 projected outward)	$3,500,000	$35,000,000
Rate Support		
Annual revenue shortfall (2016 rate case showing)	$7,200,000	$72,000,000
Grand Total		$256,000,000
→ Total 10-year needs well exceed $17M * 10		

(See Appendix for details)

Viya

Pre-Hurricane Service Obligations Proposal

- **Complete HFC deployment to remaining unserved locations**
  - <3% of locations, but most costly to serve
- **Ensure 10/1 to all locations, 25/3 to dense population centers, and Gigabit service to anchor institutions**:
  - Schools
  - Hospitals
  - Business locations needing mainland access

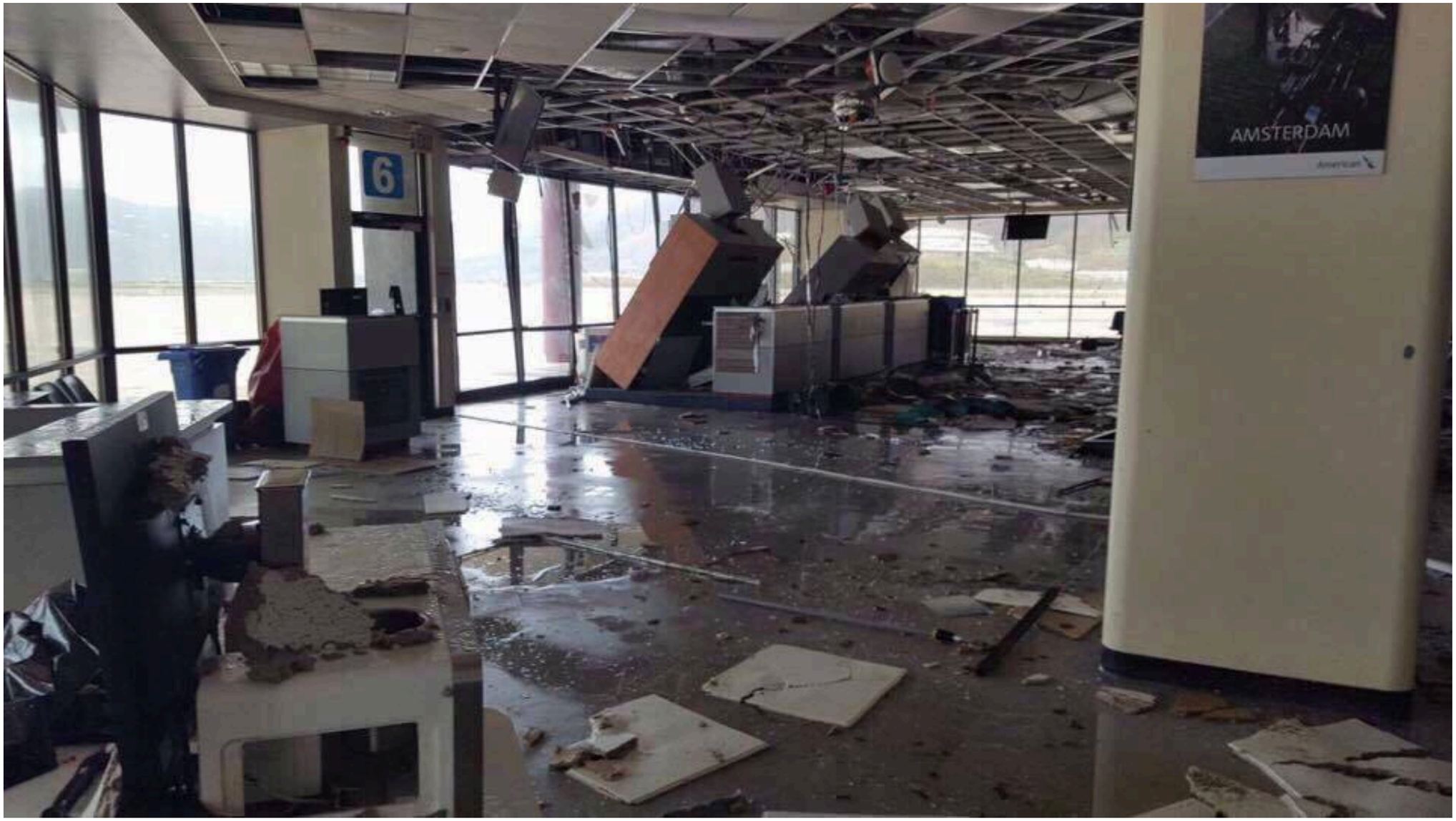
Hurricane Irma

- **On September 6, 2017, Hurricane Irma directly struck STJ and STT and caused damage to STX**
  - Category 5 storm with sustained 185+ mph winds; most powerful storm ever recorded in Atlantic Ocean
  - Most structures damaged; roofs blown off many buildings, including hospital
  - Roads blocked by large debris, downed utility poles, and landslides
  - All electrical power lost on STT and STJ and little was regained prior to Hurricane Maria
  - 911 systems lost ALI/ANI capability; problems aggravated by Hurricane Maria
- **Viya's HFC network was disabled on STT and STJ**
  - Extent of damage was unclear due to lack of consistent electrical power; NOC could not "see" the vast majority of network
  - Most poles down on STT and total failure of all systems on STJ
- **Wireless networks badly damaged across STT and STJ and to a lesser extent STX**
  - As of September 19 when Hurricane Maria hit, most wireless sites on STT and STJ and many sites on STX were still out of operation

Hurricane Irma

Hurricane Irma damage in Lindholm, STJ.

Hurricane Irma



Damage to STT airport passenger gates caused by Hurricane Irma.

Hurricane Maria

- **On September 20, 2017 (14 days after Hurricane Irma), Hurricane Maria devastated STX and further damaged STT and STJ**
  - With winds of 175-mph winds, Hurricane Maria was the second Category 5 storm to hit the USVI in two weeks
  - Many structures and electric grid on STX were destroyed, and STT and STJ suffered massive additional damage due to slow moving storm and eyewall
  - Restoration efforts undertaken by Viya following Hurricane Irma were destroyed
  - Massive damage to much larger Puerto Rico eclipsed focus on USVI
  - As a result of Hurricane Maria's damage to STX and Puerto Rico, Viya and first responders lost the staging areas that they were using to launch STT and STJ recovery efforts
    - First responders also evacuated before Maria

Hurricane Maria

Hurricane Maria damage in STX.
http://www.ibtimes.com/st-croix-devastation-hurricane-maria-shown-new-pictures-2594729

Utility pole downed by Hurricane Maria in Estate Whim, STX.

Hurricane Maria

Hurricane Maria damage in STX.
http://abcnews.go.com/International/us-virgin-islands-ruins-hurricane-maria/story?id=50178300

Aftermath: Hurricanes Irma and Maria

- **Recovery from the combined effects of Hurricanes Irma and Maria will take a substantial amount of time**
  - Electric power restored to a small fraction of locations, and both generation and distribution capability has been impacted
  - Fuel distribution for generators continues to be problem, and generators are failing because they were not designed for continuous use
  - Schools still in process of reopening; much displacement of students; power and Internet connectivity problems widespread
  - Many roads remain impassable
  - The two hospitals in USVI and at least three large schools have been condemned and will need to be rebuilt
  - Airports: limited flights
  - Major hotels closed until 2019
- **The 2018 tourist season is significantly impacted, thereby eliminating numerous jobs and more than a third of the USVI economy**

Viya's Need for Support After Irma and Maria

- **Need for $17M/year for 10 years was already shown prior to hurricanes (slide 5)**
- **Need for support is only greater now**
  - Network investment increase due to reconstruction
    - In 3Q ATN recorded a loss of $36.6 million, of which ~ $35.0 million for depreciated value of network assets (rebuild cost greater).
      - Insurance coverage of ~$34M, but business interruption costs will exceed this amount.
      - Justifies special infusion of support for recovery
  - Network operating and maintenance costs increase
    - Damaged, blocked, and flooded roads
    - Damage to power grid means huge generator and fuel expenses in the near term, and likely higher electric rates in longer term
  - Greater need for rate support
    - Economic impact on consumers and forecast reduction in USVI population likely to result in lower subscription rates and lower demand for services (particularly premium services)

Viya's Need for Support After Irma and Maria (con't)

- **FCC can help restoration of broadband service in the USVI in two ways:**
  1. **Provide certainty now regarding 10-year term of support for $17M frozen CAF support**
     - **Establish specific obligations in 2018**
     - **Grant PFR to restore $680K/year lost support (brings total to ~$17M)**
  2. **Provide additional, one-time recovery support**

Appendix

Draft Pre-Hurricane Supporting Materials for Frozen Support Showing

Viya's Need for Support Before Irma and Maria - Capex

- Financing existing $93M HFC network construction

USF Contribution to Debt Service and Return on Equity
Twelve Months Ended December 31, 2016

	Item	Amounts incl. USF	Amounts excl. USF
	(1)	(2)	(3)
A.	**Investment Financing - Broadband Deployment**		
1	**Long Term Debt - Supported Voice/Broadband Services**	$36,000,000	$36,000,000
2	**Ownership Equity Investment**	57,000,000	57,000,000
3	**Total**	$93,000,000	$93,000,000
B.	**Cash for Debt and Equity Financing - 2016**		
1	**Revenues**	$45,484,000	$29,123,000
2	**Cash Operating Expenses & Taxes - Regulated Operati**	- 35,100,000	- 29,437,000
3	**Cash (Deficit) for Debt Service and Recoup of Equity**	$10,384,000	($314,000)
4	**Annual Debt Service**	- (5,300,000)	(5,300,000)
5	**Cash Available for Recoup of Equity Investment**	$5,084,000	($5,614,000)

- Completing HFC network deployment to remaining approximately 3% of locations
  - Remaining locations are generally among the most difficult and costly to serve

Viya's Need for Support Before Irma and Maria - Opex

- Complete network integration and staff training
  - Completion and upgrade of HFC network
    - Upgrade network operating center
    - Repair and replace backup power facilities
    - Substantially lower signal-to-noise ratio
    - Develop GIS and geo-city network "as built" plans
  - Re-equipping and training HFC installation and maintenance technicians
    - Identifying faulty equipment, processes, and services and taking corrective action
    - Rationalizing truck rolls to improve efficiency

Viya's Need for Support Before Irma and Maria – Opex (Continued)

- High maintenance costs due to island terrain and climate
- Maintenance Costs –The tropical climate, the frequency of tropical storms and hurricanes in the Caribbean Region, terrain and soil composition increase costs for plant maintenance and restoration
  - Rocky and hilly terrain, airborne sea salt corrosion, high core temperatures in cable casings, tropical vegetation management require more frequent and costly maintenance operations
- Power Costs – 2016 average price per kilowatt hour in USVI is over $0.30, about 3 times the average in the 50 states (Source: US Energy Information Administration)
  - Frequent power grid outages require extensive generator and battery power backup facilities

Viya's Need for Support Before Irma and Maria – Opex (Continued)

- Shipping Costs – All materials used in the construction and operation of the USVI telecom network must be shipped in and stored at higher costs than would be incurred on the mainland
  - Additional costs for storage and provisioning of larger stores of materials
  - Additional costs for the transport of materials between the three principal islands
- Procurement Costs –The status of the USVI under U.S. Customs regulations subjects imported materials to duties and/or excise taxes not applicable in Mainland jurisdictions
- Insurance Costs – The threat of storm damage to network infrastructure results in higher costs for coverage of assets and business interruption and inability to obtain full coverage

Given the particular conditions, the USVI is more akin to Alaska than the lower 48 states

Viya's Need for Support Before Irma and Maria – Opex (Continued)

- Infrastructure Investment Costs - USVI materials and labor costs are significantly higher than the representative mainland costs used for the FCC's Price Cap Cost Allocation Model (CACM)
- Examples:

Unit Cost Variances - USVI vs. FCC CAM Model Inputs

			CAM Cost	USVI Cost	Variance
A.	**Materials**				
1	45 foot pole		$ 337.90	$ 889.00	163%
2	Undeground Conduit 2-1.25 (per foot)		2.04	3.00	47%
3	144 Fiber (per foot)	Underground	0.81	4.00	394%
		Aerial	0.81	3.50	332%
B.	**Labor**				
1	Pole Installation		496.86	1,350.00	172%
2	Fiber Placement cost per foot	Underground	0.84	1.65	96%
		Aerial	1.62	3.00	85%
3	Splicing per fiber optic strand	Underground	9.72	30.00	209%
		Aerial	9.83	30.00	205%
4	Underground Trenching cost per foot	Normal	11.87	15.00	26%
		Hardrock	15.61	50.00	220%
5	Buried Trenching Cost per foot	Normal	6.78	15.00	121%
		Hardrock	7.95	50.00	529%

- Such differentials result in higher investment costs for broadband deployment

Viya's Need for Support Before Irma and Maria – Rate Support

- Local service revenue shortfall figures from the most recent rate case demonstrate the importance of the $3.5 million in annual USF High Cost Loop Support for USVI rate affordability:

Subsidy to Local Rates

		Rate Case Year 2016	
		Incl. USF	Excl. USF
	Item	Loop	Loop
A.	Local Revenues incl. Recent Rate Increase	$ 31,380,527	$ 27,892,607
B.	Local Revenue Requirement	$ 38,616,526	38,616,526
C.	Local Revenue Deficiency	$ (7,235,999)	$(10,723,919)
D.	Subsidy Percentage of Revenues	23%	38%

- This subsidy burden would be even more onerous to the extent there is a reduction in the $12.9 million in annual USF Interstate Common Line Support

Thank you.

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